

Master Document – Audit Program

Activity Code 10100		Incurred Cost – Non-major Incurred Cost
Version 5.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
1. The purpose of incurred cost auditing is to determine if costs charged to auditable Government contracts are allowable, allocable, and reasonable in accordance with the contract terms and applicable Government acquisition regulations.		
2. This program is intended to provide for the proper planning, performance and reporting of the incurred cost audit of a nonmajor contractor. The steps in the program should reflect a documented understanding between the auditor and supervisor as to the scope required to comply in an efficient and effective manner with generally accepted government auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk.		
Other Planning Considerations		
1. Upon receipt, the contractor's incurred cost submission should have been evaluated for adequacy using the FAO's standard procedures for performing this evaluation. If additional data was required, the submission should have been returned at that time. If the submission has not yet been evaluated for adequacy, this assessment should be accomplished prior to beginning the audit. The adequacy assessment should be documented on the "Non-Major Contractor MAARs Control Log and Guide for Determining Adequacy of Contractor Incurred Cost Proposal (NM-MAARs). DCAAP 7641.90, Information for Contractors, includes an example of an acceptable incurred cost submission.		
2. Government Auditing Standards require that the auditor obtain an understanding of the contractor's internal control structure and assess the level of control risk associated with that structure. The Supervisory Auditor should determine that the audit procedures in this program and the supplemental steps added to it are tailored to meet the circumstances for the audit being completed. Unique circumstances (such as the amount of ADV as compared to the contractor's total business) which result in a significant change in risk may require tailoring of this program and should be discussed with the FAO manager.		
3. If time sensitive audits such as MAAR 6 - Floorchecks, and MAAR 13 - Purchase Existence/Consumption, update of accounting system survey, evaluation of internal controls, or CAS compliance testing (if contractor is CAS covered) have not yet been performed for the current fiscal year and the current year includes flexibly priced contracts, the supervisor should consider establishing an audit assignment to accomplish these objectives in conjunction with the incurred cost audit. For nonmajor contractors subject to the low risk sampling initiative, annual floor checks should not be performed unless there are unusual		

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circumstances increasing risk for the current year, but if possible, floor checks should be conducted in the year the full incurred cost audit is planned.

If no other field visit to the contractor is anticipated during the current fiscal year, the auditor needs to accomplish the time sensitive MAARs concurrently with the incurred cost audit.

Supervisory Guidance: Do time sensitive MAARs

		Yes		No		Auditor Assess Need	W/P Ref:	
4. The auditor should determine, by looking at the permanent files and prior audit working papers, if significant costs related to CAS have been identified and required compliance testing has been accomplished. Testing for CAS 401, 402, 405 and 406 should be performed during this audit. Compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually even if there are no incurred pension costs. Applicable audit steps are provided in this audit program at step 5 (Pensions) of working paper F-1 (Other Areas to be Evaluated). For all other applicable CAS provisions, compliance testing should be performed at least every three years, except if the contractor has made significant cost accounting changes that would require CAS compliance testing in the interim. Many CAS standards have been partially implemented by the FAR Cost Principles as follows:								
	Standard	FAR Reference				Standard	FAR Reference	
	401	31.201-1, 31.203(e)				410	31.203, 31.201-4	
	402**	31.202, 31.203(b)				411	31.205-26	
	403	31.203, 31.201-4				412*	31.205-6(j)	
	404**	31.205-11(m), 31.205-16				413*	31.205-6(j)	
	405**	31.201-2, 31.201-6				414*	31.205-10(b)(1)	
	406	31.203(g)				415*	31.205-6(i) & (k)	
	407	31.201-1				416*	31.205-19(a)	
	408	31.205-6(a) & (m)				417	31.205-10(b)(1)	
	409**	31.205-11				418	31.203, 31.201-4	
						420*	31.205-18(b)	
* These standards are incorporated by reference under most circumstances.								
** These standards are substantively duplicated by the cost principles.								

B-1	Preliminary Steps	WP Reference
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1. Contractor's Submission	
Obtain the contractor's submission and become familiar with its contents. Check the Nonmajor Contractor MAARS Control Log and Guide for Determining Adequacy of Contractor Incurred Cost Proposal (NM-MAARS) and note any audit leads requiring follow-up. (If the NM-MAARS was not completed at time the submission was received, complete it as part of this audit step.)	
2. Coordination with Contracting Officer	
Coordinate with the contracting officer. Notify the contracting officer of the commencement of the audit and expected completion date (CAM 4-103). Discuss any concerns that the contracting officer might have and the planned audit steps that address the concerns, if applicable.	
3. Permanent File (MAAR 3)	
a. Evaluate the permanent file and prepare a list of risk areas and items to be obtained during the field visit to update the permanent file (See CAM 4-405.1).	
b. Evaluate each of the following items and document, on a summary working paper, whether they include (1) areas requiring further analysis or (2), accounts which should be considered in the transaction testing plan. If items (1), (2) and (3) are not included in the permanent file for the years being audited, obtain these items at the entrance conference, if applicable.	
(1) Copies of Federal income tax returns, state income tax returns and payroll tax returns (MAAR 4).	
(2) Copies of financial statements (MAAR 4).	
(3) Board of Directors' minutes for the years being audited, if applicable (see CAM 3-104.16).	
(4) Information derived from an evaluation of such sources as company website, company newsletters, etc.	
(5) Prior incurred cost audits. Examine prior audits to identify key findings (e.g., systemic conditions) that should be considered in planning the current audit.	

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4. Understanding and Evaluating the Contractor's Internal Control Structure (MAAR 1)	
a. Update the internal control questionnaire (ICQ) or ICAPS (if prepared) and related working papers for the years being audited to obtain and document an understanding of the accounting system and any other applicable internal control systems the contractor may have (e.g. purchasing, compensation, or billing). The ICQ should include working paper references which support answers noted on the ICQ.	
There should be a separate internal control questionnaire for each contractor fiscal year. If the internal control questionnaire and supporting working papers are incomplete, include audit procedures in this program to obtain and evaluate data required to complete the questionnaire.	
As part of the update of the ICQ, identify if the contractor's internal auditors have performed reviews. Where internal audits have been performed that impact the scope of this audit, the auditor should follow the guidance contained in CAM 4-1000, Relying Upon the Work of Others. Document your review.	
Identify the significant and applicable internal controls that need to be considered when preparing the transaction testing plan. .	
Note: The successful accomplishment of this audit requires an understanding and evaluation of all relevant internal controls. However, one of the most important areas is the understanding and evaluation of the contractor's policies and procedures for identifying and segregating unallowable costs in the accounting records and excluding those costs and all directly associated costs from the submission.	
Document understanding of the contractor's policies and procedures for identifying and segregating unallowable costs and directly associated costs.	
b. If not already performed, complete the FAR Cost Principle Assessment Form (APPS Other Audit Guidance folder, Appendix in ICQ.doc, insert as part of working paper 13) to identify sensitive incurred cost areas requiring further evaluation. Document/reference your follow-up effort to all "yes" responses.	
c. If the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document	

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or reference one or more of the following in working paper B-2:	
(1.) The audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits.	
(2.) The procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
(3.) The tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-504.4a.	
d. Document assessment of control risk. If control risk is assessed at the maximum, the auditor need only document that it is at the maximum. If control risk is assessed below the maximum, the auditor must document the basis for this assessment. This documentation should include identification of the specific internal control structure policies and procedures that are likely to prevent or detect material misstatements, identification of the contractor's independent verifications of compliance with these policies and procedures, and our tests of the contractor's verifications and the effectiveness of the policies and procedures.	
5. CAS Compliance Testing	
For CAS covered contractors, check the permanent file to ensure all significant CAS have been identified. Compliance testing for CAS 401/FAR 31.201-1 and 31.203(e); CAS 402/FAR 31.202 and 31.203(b); CAS 405/FAR 31.201-2 and 31.201-6; and CAS 406/FAR 31.203(g) should be performed in the applicable steps in this audit program. Compliance with certain CAS 412 and 413 provisions/FAR 31.205-6(j) related to defined benefit pension plans must be tested annually even if there are no incurred pension costs. Applicable steps are at step 5 (Pensions) of working paper F-1 (Other Areas to be Evaluated). Compliance on other CAS standards should also be considered in the subsequent steps, if applicable (See CAM 8-305). If additional compliance testing is required, coordinate with the supervisor and develop audit procedures to perform the testing and include these procedures in the field work section of the program.	
6. Government Participation	

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To use in assessing audit risk, calculate Government flexibly priced contracts percentages of the indirect expense bases using the schedule of direct costs by cost element from the contractor's submission.	
7. Contract Briefs	
a. Evaluate the contractor's contract briefings for accuracy and completeness and determine if reliance can be placed upon them in lieu of auditor prepared briefs. Ensure that all auditable contracts/subcontracts awarded during the year have been briefed (CAM 3-200). If the contractor has not briefed all applicable contracts, the auditor should consider citing the contractor for a billing system deficiency. Any contracts that the contractor has not briefed should be briefed as part of this audit. Evaluate contract briefings for special contract provisions affecting costs. (Coordinate this step with effort performed in a recent billing system examination, if applicable.)	
b. Prepare a summary working paper which identifies special terms, conditions, and any contract provision that should be included in the audit scope, i.e. LOE hours or rate ceilings. Note on this summary the working paper reference where follow-up analysis has been accomplished.	
c. Identify any non-DoD contracts subject to audit and verify the audit effort is reimbursable (i.e., approval to bill our audit effort has been obtained from the customer where necessary). If not, adjust the audit scope and audible dollars, accordingly (CAM 15-102.2).	
8. Other Risk Considerations	
Summarize other risk considerations and document whether any areas should be followed-up in planning the audit scope. For example, determine from billing and contract files any overrun contracts or contracts with ceiling rates. The extent of overrun costs or the comparison of the ceiling rates with the contractor's proposed rates could significantly limit the risk and scope of field work needed.	
9. Indirect Rate Computations (MAAR 19)	

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Verify the mathematical accuracy of the contractors submission including the indirect expense and cost of money rate computations.	
10. Assist Audits	
Determine if the submission includes significant corporate cost allocations, auditable subcontracts, or intercompany orders (MAAR 12) requiring assist audits. Prepare assist audit requests as required. Coordinate with the Field Detachment auditor as necessary.	
11. Direct Labor and Indirect Cost Comparisons (MAAR 8 and 15)	
Perform the comparative analysis described in the following audit steps. If any significant changes or variances are identified, include audit procedures in the field work portion of the program to determine the causes of these changes or variances. Document where these items have been followed-up. If additional audit procedures or follow-up are not required for any of the significant changes or variances identified, document the reason.	
Note: Prior to preparing the comparisons, coordinate with the contractor to determine if the comparisons have already been prepared. If so, obtain a copy and analyze the contractor prepared comparisons.	
a. Analyze forward pricing indirect expense rate or provisional billing rate audits performed during the years being audited to determine if the contractor prepares reliable budgets that would provide for a meaningful comparison. If so, perform a comparison of the amounts in the budgets to the submission by expense pool and base by element to identify any significant variances. (MAAR 15)	
b. Determine if the contractor's practices used to accumulate actual costs are consistent with practices used to prepare forward pricing direct and indirect rates for the same year (CAS 401/FAR 31.201-1 and 31.203(e)).	
c. Compare the submitted detail expense pool accounts with prior year's amounts to identify any significant changes from year to year (MAAR 15).	
NOTE: While preparing the above comparison, identify the amount of proposed consultant costs and evaluate the significance	

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and sensitivity of the proposed costs. If costs are significant, consider using the 10160 – Consultant Costs program to evaluate the proposed costs for allowability, allocability, and reasonableness. (FAR 31.205.33)	
d. The amount of claimed pension cost and insurance cost should also be identified and evaluated for significance and sensitivity.	
(1.)If claimed pension costs are significant, at a minimum, determine if the funding requirements of FAR 31.205-6(j)(2)(i) (for all plan types), (3)(i)(A) and (3)(iii) (for defined benefit plans) are met.	
(2.)If selected for testing, utilize Assignment Code 19412 for pension cost and Assignment Code 19416 for insurance cost.	
NOTE: The steps in the 19412 audit program and the 19416 audit program are applicable to both CAS covered and non-CAS covered contractors and should be adjusted appropriately based on the risk assessments.	
(3.)If pension costs are not selected for testing, the steps at step 5 (Pensions) of working paper F-1 (Other Areas to be Evaluated) must still be performed annually for defined benefit plans, even if no pension costs are incurred.	
NOTE: Pension cost and insurance costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.	
e. Perform comparative analysis of sensitive labor accounts to identify any sensitive labor charges that vary significantly from the prior period and or budgetary estimates (MAAR 8).	
12. Determination of Cost Accounting Period	
Determine if the contractor uses the fiscal year as its cost accounting period. (CAS 406/FAR 31.203(g)) (See CAM 8-406.1 and 6-605 for exceptions to the fiscal year.)	
13. Fraud Risk Indicators	
In planning and performing the examination, consider the fraud risk	

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<p>indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Section II. (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and • CAM Figure 4-7-3, CAM 6-305, and CAM 6-404.6. <p>Document in working paper B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.</p>	
14. Impact of SAS 70	
<p>In planning the audit, consider the impact of SAS 70, <i>Reports on the Processing of Transactions by Service Organization</i>, as amended by SAS 88, <i>Service Organizations and Reporting on Consistency</i>, on audit scope by performing the following steps:</p>	
<p>NOTE: The Assignment Code 19412 program for pension cost and the Assignment Code 19416 program for insurance cost also include the SAS 70 steps. If pension cost and insurance cost are selected for testing, the SAS 70 steps for service organizations related to those costs should be completed as a part of those supplemental audit packages.</p>	
a. Determine if the contractor (user organization) uses any service organizations.	
b. If service organizations are used, determine if the transactions processed by the service organization are material.	
c. If transactions are material, determine if the service organization is part of the user organization's information system.	
d. If so, determine the degree of interaction between the service organization and the user organization. If high (as in the case of payroll processing, where the service organization receives time and attendance information from the user organization, prepares the payroll, writes the checks, etc. and then the user organization performs tests of the processed payroll for accuracy) there is no need to obtain an understanding of the service organizations controls. If low (as when a trustee manages pension assets):	
(1) Obtain and evaluate the service agreement (contract).	

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(2) Obtain and evaluate the service auditor's report (if any), referring to the guidance in CAM 4-1000, "Relying Upon the Work of Others."	
(3) If necessary, obtain and evaluate other information available at the user organization including user manuals, system descriptions, technical manuals, and other policies and procedures.	
(4) If necessary, obtain and evaluate any reports prepared by the user or service organizations' internal auditors relating to internal controls over transactions and processes.	
(5) If necessary and with appropriate permission, visit the service organization and perform procedures or request an assist audit.	
e. Summarize effects of the evaluation of service organizations on scope of current audit.	
15. Summary of Risk Assessment	
Summarize assessment of risk for areas covered in the preliminary steps and identify items which require follow-up during the entrance conference, field work audit steps, or which should be considered in preparing the transaction testing plan. Discuss the anticipated field work scope of audit with the supervisor, and budget the audit program for the detailed audit steps (CAM 3-103.2).	
16. Entrance Conference	
Arrange and conduct an entrance conference (see CAM 4-302). Explain to the contractor's representatives that as issues are developed during the audit, they will be furnished to the contractor for fact-finding and timely resolution. This process should facilitate reduced audit cycle time and efforts to respond to and issue the audit report.	

C-1	Performance of Reconciliation MAARs	WP Reference
Version 5.0, dated April 2004		
1.	Complete the reconciliation MAARs. Summarize the results of this effort and note whether any areas require further analysis in other field work audit steps or identify accounts which should be considered in	

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preparing the transaction testing plan.	
a. Reconcile costs claimed by major cost element under auditable Government contracts to the contractor's job cost subsidiary ledgers or other accounting system records or analyze the contractor's reconciliation (MAAR 2).	
b. Reconcile the contractor's claimed base and pool amounts to the general ledger (or analyze the contractor's reconciliation) (MAAR 14).	
c. Reconcile payroll totals (dollar value and hours) with totals of related labor cost distribution records. The auditor should also have the contractor reconcile total salaries and wages to payroll tax returns (IRS Form 941) unless a labor system examination has been performed and the payroll preparation and payment control activities were found to be adequate. (MAAR 9).	
d. Test the contractor's reconciliation of booked to billed costs. If the contractor's reconciliation schedule shows material overbilling at either the total or individual contract level, discuss with the supervisor the need to set up a special purpose audit of contractor overpayments (to determine actions needed to resolve overbilling), and, if the contractor has been authorized to direct bill, determine whether the contractor should continue to be authorized to direct bill (see CAM 6-1007.3 for Criteria for Adequate Billing Systems – Nonmajor Contractors).	

D-1	Performance of Special Purpose MAARs	WP Reference
Version 5.0, dated April 2004		
1.	Complete the following MAARs. Summarize the results of this effort and note whether any areas require further analysis in other field work audit steps or identify accounts which should be considered in preparing the transaction testing plan.	
a.	Analyze general ledger and trial balance adjusting and closing journal entries to identify any income or credits to which the Government may be entitled or adjustments requiring follow-up work (MAAR 5).	
b.	Identify changes in direct/indirect labor charging practices and evaluate them for consistent classification between direct and indirect (CAS 402), compliance with FAR 31.202 and 31.203(b), and generally accepted accounting principles. Verify that any changes did not improperly shift costs among cost objectives or	

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	circumvent cost targets or ceilings (MAAR 7). Note that MAAR 7 and 8 can be combined in a mobile environment.	
	c. Evaluate contractor's indirect cost allocation bases for equity and consistency with generally accepted accounting principles, FAR, and CAS (including the applicability of the allocation bases) (MAAR 18). Determine if the same accounting period is used for accumulating costs in an indirect cost pool as for establishing its allocation base (CAS 406/FAR 31.203(g)).	
2.	Evaluate material accounts and transactions to determine if the material was needed for the contract, purchased in reasonable quantities, purchased at a prudent price, and properly accounted for in accordance with generally accepted accounting principles, applicable acquisition regulations, and contract terms (MAAR 13).	
3.	Verify the contractor's schedule of auditable type subcontracts and intercompany orders under auditable type Government contracts and subcontracts (MAAR 12).	
	a. Evaluate the contractor's internal control system relating to subcontracts and intercompany orders (see CAM 6-801 a.).	
	b. Arrange for any required assist audit (see CAM 6-801, 6-802, and 6-803). Check the permanent file to determine if there are prior assist audits that need resolution.	
	c. Analyze assist audit results and incorporate into the audit of subcontract costs. Reconcile the allowable costs reported for the subcontract in the assist audit report with the claimed subcontract costs in the contractor's submission. Follow up as needed with the assist auditor.	
4.	Analyze contractor's independent research and development and bid and proposal (IR&D/BP) costs to verify proper classification and compliance with advance agreements or formula limitations (MAAR 17).	

E-1	Performance of Transaction MAARs	WP Reference
Version 5.0, dated April 2004		
1.	Obtain and evaluate any data needed to update the permanent files (MAAR 3).	
2.	The extent of transaction testing audit procedures should reflect the assessment of the risk of material misstatement due to fraud. For example, increased sample sizes or more extensive analytical procedures may be appropriate.	

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3. Transaction Testing. The purpose of transaction testing is to determine that claimed costs are allowable, allocable, and reasonable. Transaction testing working paper documentation should include the following items:	
<ul style="list-style-type: none"> • Basis/criteria for selecting the individual account for transaction testing. 	
<ul style="list-style-type: none"> • Description of the universe of transactions for each account to be tested. 	
<ul style="list-style-type: none"> • Basis/criteria for selecting transactions from the account universe for analysis. 	
<ul style="list-style-type: none"> • Description of the nature and characteristics of the expense for each transaction analyzed in enough detail to make a determination of allowability. 	
<ul style="list-style-type: none"> • Conclusion on each transaction analyzed (allowable/unallowable), and the specific criteria (e.g., FAR, CAS, contract terms) used to make that conclusion. 	
4. Prepare the transaction testing plan and obtain supervisory approval. This plan has to fully consider all significant costs, both direct and indirect. Ensure that the plan accomplishes the following objectives and MAARs.	
a. Evaluate and document selected indirect cost accounts or transactions including consideration for large dollar accounts; sensitive or high risk accounts (including those related to sensitive responses on the FAR Cost Assessment form); new accounts; accounts identified with large variances during the comparison analysis; cyclical evaluation; prior audit experience; and other identified audit leads (MAAR 16).	
b. During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only (CAS 402/FAR 31.202, 31.203(b)).	
c. Evaluate adjusting journal entries and exception reports for:	
(1) Labor (MAAR 10)	
(2) Material (MAAR 11)	
(3) Indirect costs (MAAR 20)	
d. Ensure that the contractor follows consistent practices in selecting the cost accounting period(s) in which any types of expense and any type of adjustment to expense are accumulated and allocated (CAS 406/FAR 31.203(g)).	

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e.	The extent of required transaction testing should be based on considering all of the following factors: (i) assessment of control risk, (ii) prior audit experience, (iii) materiality, and (iv) results of the previous preliminary and field work audit procedures performed in this audit program.	
f.	Unallowable Costs (CAS 405/FAR 31.201-2 and 31.201-6):	
	(1) Determine if expressly unallowable, mutually agreed to be unallowable, costs which specifically become designated as unallowable by contracting officer's written decision, and directly associated costs are identified and excluded.	
	(2) Analyze voluntary deletions and questioned costs for directly associated costs that should also be excluded or questioned.	
	(3) Determine that unallowable costs which are normally included in an allocation base or bases remain in the base or bases.	
	(4) Determine that costs directly associated with an unallowable cost, if normally included in an indirect cost pool to be allocated over a base which contains the unallowable cost, are allocated through the regular allocation process.	
g.	If multi-year audits are performed, transaction testing can be limited to one year if account balances and conditions are similar for all years and no significant exceptions are identified. This conclusion must be documented in the working papers. If significant exceptions are found, transaction testing must be expanded across all years.	
	Also, when large account balances vary significantly or conditions have changed from year-to-year, transaction testing should be performed for all years for these accounts.	

F-1	Other Areas to be Evaluated	WP Reference
	Version 5.0, dated April 2004	
	1. Cost of Money	
	If the submission includes cost of money rates, prepare audit procedures to verify the amounts on the CASB-CMF form, Facilities Capital Cost of Money Factors Computation. Consider limited testing if CAS 414 compliance has already been performed.	

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2. Time and Material (TM) and Level of Effort (LOE) Contracts	
If the submission includes any TM or LOE contracts, prepare audit procedures to determine if the proposed hours and rates comply with the contract provisions.	
3. Employee Stock Ownership Plans (ESOPs)	
If the submission includes any ESOPs costs, determine if the proposed costs comply with the specific requirements of FAR 31.205-6(j)(8). ESOPs of closely held corporations usually have higher allowable cost risk assessments because the company stock acquired by the ESOP may not be traded on the open market and the majority owners may have influence on the fiduciary activities of the ESOP trustee.	
a. Verify that the rate of contribution meets the allowability criteria in FAR 31.205-6(j)(8)(i).	
b. Ascertain that the stock purchases by the Employee Stock Ownership Trust (ESOT) were made at reasonable prices (FAR 31.205-6(J)(8)(i)(E)).	
(1) Where no competitive market prices are available, verify that the prices paid are comparable on a price earnings ratio basis to the prices of comparable companies' stocks that are traded on the open markets.	
(2) Verify that the Trustee received an independent financial appraisal of purchased company stock. Consider the methods and verify the accuracy of the accounting data used by the appraiser.	
c. Verify that the contributions of "tax credit" ESOPs (FAR 31.205-6(j)(8)(E)(ii)) are not claimed on Government contracts. As a minimum, Schedule M of the contractor's Federal tax return should be used for this verification.	
4. Executive Compensation	
If the compensation of owners, executives and other high risk employees has not been analyzed as part of a compensation system internal control audit and executive compensation is considered material, verify that the compensation of these employees is reasonable and allowable in accordance with FAR 31.205-6 (see CAM	

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6-414).	
5. Pensions	
<p>The following steps must be performed annually for defined benefit plans whether pension costs are incurred or not:</p> <p>(Note: These steps are included in the 19412 audit program. Therefore, if pension costs are selected for testing, these steps should be performed as part of that audit and not duplicated here (see B-1, Preliminary Steps, Step 11 d above).)</p>	
a. Determine if any events have occurred since the last audit that would require an adjustment to previously determined pension costs per CAS 413.50(c)(12); i.e., a segment closing, pension plan termination, or curtailment of benefits. If so, in addition to completing the steps below, a special CIPR must be performed using the CAS 413 audit program.	
b. Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government-contributed pension assets are protected.	
c. Determine if any events have occurred since the last audit that may result in conditions that require segment accounting (CAS 413.50(c)(2) and (3)). If so, recommend to the ACO that a special CIPR be performed to verify that the contractor has complied with CAS 413.50(c)(2), (3), and (5).	
d. If the contractor's practice is to calculate pension costs by segment:	
(1.) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).	
(2.) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities.	
(3.) If so, verify that assets equal to the employees' actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8). (Consider requesting the assistance of the DCMA pension specialist through the ACO (CAM 5-1303.1c).)	

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A-1	Concluding Steps	WP Reference
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1.	Summarize audit results, including the results of testing for compliance with FAR and CAS 401, 402, 405 406 and any other CAS standard evaluated, for supervisory review.	
2.	Incorporate the results of all assist audits. If any requested assist audits are outstanding, follow-up with the cognizant auditor. See CAM 6-709.2 c. for guidance on issuing the audit report without the requested assist audits.	
3.	Prepare the exhibit(s) of questioned costs to be provided to the contractor at the exit conference including appropriate explanatory notes.	
4.	Obtain supervisory reviews of working papers and audit results. All sensitive areas should be brought to the attention of the FAO Manager or RAM.	
5.	Conduct an exit conference and provide the audit results (including the exhibit and explanatory notes) to the contractor (see CAM 4-304.4). The contractor's reaction should be obtained for inclusion into the final audit report.	
6.	If the contractor agrees with the audit results, prepare a rate agreement letter in accordance with CAM 6-708.2.	
7.	If the contractor does not agree with the audit results, prepare a DCAA Form 1 in accordance with CAM 6-900. Notify the cognizant ACO of the pending Form 1 and the major cost issues. For audits of subcontracts coordinate Form 1 issues with the prime contract auditors for their preparation of any needed Form 1.	
8.	Prepare the draft report in accordance with CAM 10-500. If any questioned costs are subject to FAR 42.709 or DFARS 231.703 penalties for unallowable costs, follow the reporting procedures discussed in CAM 10-500.	
9.	If applicable, prepare CAS noncompliance and internal control deficiency reports.	
10.	Obtain supervisory review of the draft reports and rate agreement letter or Form 1, as applicable. The top page of the draft report should be initialed and dated by the supervisor to indicate final review. The RAM should also review the DCAA Form 1.	
11.	Prepare/update the schedule of cumulative allowable costs worksheet by contract and subcontract for use in contract closeout. Communicate with the contractor and request that it provide this	

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schedule whenever possible.	
12. Prepare any required audit lead sheets and update permanent files (CAM 4-405.1).	
13. Prepare and verify accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.	
14. Ensure audit program steps initially approved by the supervisor have been posted and reasons provided for all steps not performed with appropriate working paper references. Ensure all working papers, including the administrative papers are complete.	
15. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or	

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read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS:</u> Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing	

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instructions.	
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